

Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C. 20554

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FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

In the Matter of)
800 Data Base Access Tariffs and the) CC Docket No. 93-129
800 Service Management System Tariff)

COMMENTS ON DIRECT CASES

Respectfully submitted,

AD HOC TELECOMMUNICATIONS
USERS COMMITTEE

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Summary

The carriers have failed to carry their burden of proof to demonstrate the justness and reasonableness of their 800 data base basic query rates. In large measure, this is due to the fact that the Direct Cases fail to justify the excessive amounts claimed for exogenous cost treatment, in many cases virtually ignoring the explicit limitations imposed, and direction provided, by the Commission in this regard in its Rate Structure Order, and by the Chief, Common Carrier Bureau in the Designation Order. The Direct Cases also are woefully deficient in adequately documenting the direct costs of providing basic query service, precluding a meaningful review which would "get behind the numbers." Finally, some carriers rely on unreasonable rate making methodologies using levelized demand assumptions that have the effect of double counting future demand growth.

The resulting rate impacts of the LECs' basic query charges upon members of the Ad Hoc Committee using 800 data base short duration applications (e.g. point of sale networks) are substantial. Because the LECs have the incentive to use their bottleneck monopoly in the provision of 800 data base basic query service to implement migration pricing strategies, the Commission must follow up on its commitment to enforce a strict tariff review process in this proceeding and to prescribe just and reasonable rates.

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COMMENTS ON DIRECT CASES

The Ad Hoc Telecommunications Users Committee ("Ad Hoc Committee" or "Committee"), pursuant to the procedures established by the Commission in its Designation Order,^{1/} submits these comments in response to the Direct Cases filed in support of the rates included in the 800 data base access tariffs.

I. INTRODUCTION

In its Petition for Rejection or Suspension filed March 18, 1993, the Ad Hoc Committee demonstrated that the impact of the proposed tariff revisions, as estimated by Committee members that utilize 800 Database Basic Service for short duration applications such as point of sale credit card authorizations, was substantial -- averaging on the order of seventeen to twenty percent. It was further shown that, ironically, it was these most efficient of transaction processing applications (i.e., of short duration) that were most severely affected by the rate

^{1/} 800 Data Base Access Tariffs and the 800 Service Management System Tariff, Order Designating Issues for Investigation, CC Docket No. 93-129, 8 FCC Rcd 5132 (1993) ("Designation Order").

increases, a counter-intuitive result inasmuch as the rate increases are for services run on an efficiency enhancing, cost reducing technology: Signalling System 7 ("SS7").^{2/} Given the size of the rate increases, in combination with the fact that many carriers are engaged in upgrading their networks generally through the installation of SS7 technology, the Ad Hoc Committee believes that the central issues in this tariff investigation are (i) whether the LECs have overstated the exogenous costs attributable to 800 Database Basic Service contrary to the procedures specifically prescribed by the Commission in this regard^{3/} and (ii) whether the LECs' tariff filings adequately demonstrate the direct costs of providing such service.^{4/}

The Committee's review of the Direct Cases indicates that none of the carriers has met its burden of proof on these important issues.^{5/} Rather, the collective evidence presented

^{2/} It appears it is because the Commission has authorized 800 database cost recovery on a per query basis that short duration calls are particularly susceptible to adverse price impacts.

^{3/} Provision of Access for 800 Service, Second Report and Order, CC Docket No. 86-10, 8 FCC Rcd 907, 911 (1993) ("Rate Structure Order"). See also, Designation Order at 5135 (¶ 25).

^{4/} The importance of this inquiry is highlighted by the fact that the volume of 800 calls involving short duration transactions is believed to be growing at a higher rate than voice 800 calls.

^{5/} The Ad Hoc Committee's comments are based upon the analysis of the Direct Cases set forth in the study, Review of LEC Direct Case Data Filed in Support of 800 Database Pricing, prepared by Economics and Technology, Inc. ("ETI Report"), a copy of which is attached hereto as Exhibit A.

in the tariff filings and Direct Cases, even as supplemented on March 15, 1994 at the Commission's direction, shows the LECs have overstated exogenous costs significantly and, principally as a result of not following the Commission's express directions combined with the absence of a sufficient level of detail in their cost support, failed to demonstrate that their query rates are justified by costs directly attributable to 800 Database Basic Service. In addition, the Committee's review of the Direct Cases shows that Bell Atlantic and SNET continue to apply fully allocated cost overhead factors to exogenous cost estimates contrary to the Commission's direction, and that some companies continue to use "levelized future demand" to account for exogenous costs and the effects of the Commission's treatment of basic query service as a restructured service under price caps and, in the latter respect, continue to fail to demonstrate how over-compensation will not result from use of levelized future demand.

Local exchange carriers have every incentive to manipulate pricing of 800 data base query service. Deployment of LEC transaction processing services that will compete with services offered by other providers that have no option but to employ LEC bottleneck 800 data base query service, combined with the more general incentive LECs have to allocate network upgrade (e.g., SS7) costs to monopoly services, constitute compelling circumstances requiring that the Commission hold the LECs to a

strict standard of accountability in justifying their 800 Database Basic Service rates in this proceeding.^{6/}

In the following sections, the Ad Hoc Committee addresses these and other matters according to the order of the issues set for hearing in the Designation Order as follows:

Issue 3. The reasonableness of the price cap LECs' 800 data base rates.

Subissue: Are the exogenous costs claimed by the price cap LECs reasonable?

Subissue: Have the LECs used reasonable rate making methodologies in developing their basic query rates?

II. THE LEVEL OF EXOGENOUS COSTS CLAIMED BY THE LECs REMAINS INADEQUATELY JUSTIFIED IN THEIR DIRECT CASES. FURTHER, SEVERAL LECs HAVE FAILED TO EMPLOY REASONABLE RATE MAKING METHODOLOGIES IN DEVELOPING THEIR RATES: (ISSUE 3)

Overall, the Direct Case filings add little in the way of substantive material and are insufficient to meet the carriers' "burden of proof to show that their new or revised rates are just and reasonable."^{7/} Primarily, the Direct Cases fail to meet the burden established for exogenous treatment of 800 data base service costs. In addition, several carriers continue to employ "levelized demand" methodologies that are

^{6/} As noted in the ETI Report, LECs control the access links used for the vast majority of all credit card verification and other point of sale telecommunications applications, and by virtue of such control, have the ability to artificially suppress demand for one service and/or increase demand for the other by manipulative pricing practices. ETI Report, p. 2, footnote 5.

^{7/} Designation Order at 5138 (¶ 44).

inherently unreasonable because they will result over the long term in double recovery of costs under price cap regulation.

A. The Direct Cases Fail To Meet The Carriers' Burden Of Proof For Justifying Exogenous Cost Treatments

When the Commission orders an investigation into the lawfulness of filed tariffs, Section 204(a)(1) of the Communications Act provides that the "burden of proof to show that the new or revised charge, or proposed charge, is just and reasonable shall be upon the carrier," ^{8/} In this investigation into the lawfulness of the 800 data base access tariffs, the statutory burden of proof was given particular emphasis by the Commission in the context of the anticipated requests for exogenous treatment under price cap regulation of 800 data base access service deployment costs. Indeed, since the decision to allow limited exogenous cost treatment for 800 data base access costs was itself extraordinary given its classification as a "restructured" service, ^{9/} the Commission established an exacting burden which was to be met by carriers seeking exogenous treatment.

Thus, the Commission provided that to qualify for exogenous treatment, costs first have to be "reasonable" and, if reasonable, have to be "incurred specifically" for provision of

^{8/} 47 USC § 204(a)(1).

^{9/} The Commission found that 800 data base service "does not fit squarely within the definition of either a new or restructured service", but found arguments favoring the restructured service classification to be stronger. Rate Structure Order at 911 (¶ 26).

800 data base service. Indeed, the Commission "emphasize[d]" that exogenous cost treatment "will only extend to those costs incurred specifically for the implementation of basic 800 data base service."^{10/} Enlarging on the limitation that exogenous costs must be "incurred specifically", the Commission distinguished "core SS7 costs", and even "costs of accelerating SS7 deployment" as a consequence of the 800 number portability implementation schedule, as costs that would not be considered to have been incurred specifically for implementation of basic 800 data base service. The Commission specifically identified as qualifying costs only those costs associated with Service Control Points (SCPs), the Service Management System (SMS), and links between SCPs and the SMS, and between Signal Transfer Points (STPs) and SCPs, allowing for exogenous treatment even of these costs only "to the extent . . . directly attributable to 800 data base service," and allowing for exogenous treatment of other expenses only where LECs carry the "burden . . . to demonstrate that such additional costs are incurred specifically for the implementation of basic 800 data base service."^{11/}

(i) Exogenous treatment of core SS7 costs must not be permitted by the Commission.

The Commission intended that SS7 deployment costs, including even those incurred in order to provide 800 data base service pursuant by the May 1, 1993 deadline, would not qualify

^{10/} Rate Structure Order at 911 (¶ 28). (Emphasis added).

^{11/} Id.

for exogenous cost treatment. It was expected that the great majority of costs associated with conversion to the 800 data base system would be properly associated with other present and future network services, and that even those costs used solely for 800 data base might yield substantial efficiencies and savings for the LECs.^{12/} Such "core" SS7 costs, notwithstanding and without regard to what extent they may be incurred for provision of 800 data base access service, do not qualify for exogenous cost treatment. That is precisely why the Commission, in its Rate Structure Order, specifically enumerated a limited set of facility-related costs (SCPs, the SMS, and links between SCPs and the SMS, and between STPs and SCPs) that would qualify for exogenous treatment, and these only to the extent relevant costs were shown to be "directly attributable to 800 data base service." All other costs (e.g., for STPs, SSPs and tandem switching) are presumptively core SS7 costs (i.e., they are necessary components of SS7 deployment) and are therefore not eligible, even in part, for exogenous cost treatment in connection with provision of 800 data base access service.

In large measure, the LECs have chosen to ignore these carefully drawn distinctions and sought simply to "lump" costs having any remote 800 data base connection together for exogenous treatment. Examples include: costs for facilities that would

^{12/} Id. at 914. (Separate Statement of Commissioner Ervin S. Duggan).

exist even absent the 800 data base;^{13/} non-capital expenses that have not been demonstrated to have been new as a result of the data base;^{14/} investments in facilities beyond those specifically enumerated in the Rate Structure Order;^{15/} and costs associated with normal growth and network upgrades.^{16/} Absent compelling justification (not found in the Direct Cases), such categories of costs are completely ineligible for exogenous treatment.

(ii) Inadequately justified SCP and signalling link allocations and inclusion of "shared" SCP costs should be disallowed by the Commission.

Wholesale assignments to 800 data base service of SCP costs and STP/SCP signalling link costs where such facilities are now used for other services, such as LIDB, are obviously inappropriate under the Rate Structure Order and should not be permitted.^{17/} But even where such facilities are now used

^{13/} Bell Atlantic Local STP and Remote STP investments (ETI Report, p. 23).

^{14/} Bell Atlantic "800 Repair Center" costs (ETI Report, pp. 24-26).

^{15/} For example, NYNEX and BellSouth links between local and regional STPs (ETI Report, pp. 20-24).

^{16/} These include: Pacific Bell's claim for \$7.62 million in exogenous costs related to tandem switch upgrades; and Bell Atlantic's inclusion of future LSTP investment likely to support introduction of other new services (ETI Report, pp. 27-28).

^{17/} ETI Report, pp. 21-23. Ameritech, Bell Atlantic, BellSouth, Pacific Bell, Southwestern Bell and US West all treat investments associated with both "dedicated" and "shared" SCPs as exogenous. ETI Report, p. 21. NYNEX appears to have included "total booked investment" for all SCPs in its
(continued...)

exclusively for 800 data base service, or where carriers have allocated investments between services on a relative use basis, the resulting allocations fail to account for future uses of the SCP and related signalling links for other services. Further, the relative use allocation methodologies employed by the carriers are premised on straight counts of queries, assuming without support or justification that equivalent costs are imposed on the SCP by 800 data base, LIDB and other query services.^{18/} None of the Direct Cases justifies the allocations of SCP or STP/SCP signalling link costs to the extent necessary to meet the heavy burden of proof the Commission established in the Rate Structure Order and Designation Order to warrant exogenous treatment. Therefore, none of these costs should be accorded exogenous treatment.

(iii) Requests for exogenous treatment of overheads (Bell Atlantic and SNET) are unjustified.

SNET and Bell Atlantic continue to press for exogenous treatment of overhead costs, notwithstanding requirements that the LECs remove overhead loadings from the development of exogenous costs.^{19/} The cursory justification offered by these carriers, generally asserted claims that 800 services cause

^{17/} (...continued)

exogenous cost development even though one of its three SCP pairs is presently dedicated to LIDB service and provides no 800 data base service whatsoever. ETI Report, p. 14.

^{18/} The Direct Cases of NYNEX, Ameritech, Bell Atlantic, BellSouth and US West suffer this infirmity. ETI Report, p. 22.

^{19/} ETI Report, pp. 20-21.

overheads to be incurred, is insufficient to meet the burden established in the Rate Structure Order for exogenous cost treatment. Neither company demonstrates that overhead expenses occasioned by 800 data base service should be expected to be any more than overhead expenses occasioned by pre-existing 800 service and already built in to their price cap rate structure. Any additional overheads incidental to the flurry of activity associated with implementation of 800 number portability on May 1, 1993, would fall within the "costs of accelerating SS7 deployment" specifically found by the Commission to be ineligible for exogenous cost treatment.^{20/} Furthermore, overheads are by definition not "incurred specifically" for, or "directly attributable" to, any particular service, and thus are not appropriate for exogenous treatment.

(iv) Inclusion of overstated interstate costs as the result of improper jurisdictional separations procedures must be rejected.

Rather than following prescribed Part 36 procedures, Ameritech, Bell Atlantic, NYNEX and Pacific Bell employ a "relative use" jurisdictional allocations process which, because the vast majority of 800 data base calls are interstate, results in a larger amount of the overall investment being recovered through interstate access prices than is actually allocated to the interstate jurisdiction.^{21/} This results in excessive

^{20/} Rate Structure Order at 911 (¶ 28).

^{21/} ETI Report, pp. 28-29. Southwestern Bell appears to have properly separated investments using Part 36, but has separated expenses using the relative use method.

exogenous cost amounts even where the underlying basis for exogenous cost treatment is legitimate. All carriers should be required to separate jurisdictional costs in their exogenous cost development using prescribed Part 36 procedures.

- (v) **The LECs have failed to adequately document the direct costs of providing 800 data base basic query service.**

The ETI Report catalogues numerous "documentation" deficiencies found in its review of individual LEC Direct Cases.^{22/} These include in some instances a complete failure to provide materials in accordance with the requirements of Appendix B of the Designation Order, unexplained discrepancies between costs developed in tariff materials and in the subsequently filed Direct Cases and Supplements to Direct Cases and, in general, an overall inadequacy of data and explanatory materials to enable the Commission and interested parties to "get behind" the numbers. Thus, in addition to including grossly excessive exogenous cost amounts, the basic query service rates are inadequately explained and supported. In short, the evidence presented by the LECs fails to demonstrate the direct costs of providing this service.

B. Several Carriers Fail To Follow Reasonable Rate Making Methodologies in Developing Basic Query Rates, Using Levelized Demand Assumptions

The Designation Order placed upon the carriers the burden of demonstrating the reasonableness of demand assumptions

^{22/} ETI Report, pp. 5-18.

used to develop 800 data base basic query rates.^{23/} In its Petition for Rejection or Suspension filed March 18, 1993, the Ad Hoc Committee demonstrated that the use of five-year levelized demand assumptions by Bell Atlantic, NYNEX and others has the effect of double counting future demand growth, thereby allowing larger than warranted price caps adjustments. The double counting results from the fact that demand changes are reflected once in the levelized five-year growth used to calculate exogenous costs, and are recognized again when Price Cap Indices are updated each year. Nothing in the carriers' Direct Cases provides assurance that double counting will not result from use of such levelized demand assumptions and methodologies. While the Direct Cases of Bell Atlantic and NYNEX argue that use of five-year levelized demand produces accurate "going-in" prices, neither carrier makes any attempt to rebut the Ad Hoc Committee's showing that double counting will result in the longer term.^{24/} The Commission should reject levelized based demand projections as unreasonable.

III. CONCLUSION

In accordance with the views expressed in these Comments and in the attached ETI Report, the Ad Hoc Committee urges the Commission to reject excessive exogenous cost claims

^{23/} Designation Order at 5136 (¶ 30).

^{24/} ETI Report, p. 30.

and unreasonable rate making methodologies, and to prescribe just, reasonable and lawful 800 data base basic query rates.

Respectfully submitted,

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ATTACHMENT A

Analysis of Local Exchange Carrier 800 Data Base Direct Case Filings

Docket Number 93-129*

I. Introduction and preliminary conclusions

As we stated in our original analysis of the 800 data base tariffs back in March of 1993, 800 data base access service is the archetypical bottleneck monopoly service.¹ Since its implementation on May 1, 1993, the 800 data base has been the only method available for routing 800 calls through the US telecommunications network. 800 number services are the fastest growing telecommunications market segment in the US; a substantial portion of the volume of 800 calls involve short-duration transactions processing applications such as credit card validations and point-of-sale data communications. These transactions are believed to be growing at a higher rate than voice 800 calls. Because the Commission has authorized 800 data base costs to be recovered on a per query basis, short duration 800 calls are particularly susceptible to severe adverse price impacts.

Major LECs originally submitted their 800 data base related tariff changes on March 1, 1993. These submissions were required to comply with the Commission's cost allocation

* This paper was prepared by Susan M. Gately and Cherie M. Abbanat of Economics and Technology, Inc. (ETI).

¹ See, ETI Report entitled *Local Exchange Carrier Tariffs for 800 Database Service*, dated March, 1993.

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and ratemaking determinations in CC Docket 86-10.² In its review of this 800 data base tariff and cost support material, the FCC found a number of the practices used to develop and attribute costs to 800 data base service to be questionable, and instituted an investigation to determine the appropriateness of those costs.³ The discussion which follows below is based upon our analysis of the Direct Case materials filed by the Price Caps LECs, particularly as those filings impact the development of costs for the basic query charge.⁴

The importance of the development of the basic query charge can not be overstated. Remember, 800 data base access service is more than just the monopoly basic query service. The service enables LECs to provide several vertical call routing and management features that can compete directly with similar offerings available in data base enhancements offered by long distance carriers. Some of the same functionality could also be engineered into communications and data processing equipment. Thus, the service is, indeed, a bottleneck in the literal meaning of the term: The 800 data base is an essential input for services that compete with prospective LEC offerings.⁵

² Provision of Access for 800 Service, *Second Report and Order (Order)*, CC Docket 86-10 (FCC 93-53), January 29, 1993 (the *Order*). The tariffs were also required to comply with several other requirements for those portions that are treated as "new services," the vertical feature capabilities, and for the basic query fee treated as a restructured service under Price Caps. See Policy and Rules Concerning Rates for Dominant Carriers, *LEC Price Cap Reconsideration Order* CC Docket 87-313 (FCC 91-115), April 17, 1991 and Creation of Access Charge Subelements for ONA, *Report and Order*, 6 FCC Rcd. 4524, 1991.

³ *Designation Order*, 8 FCC Rcd at 5132. The LECs initial Direct Case filings made in September, 1993 relied upon the use of proprietary software models and were not in compliance with the requirements of Docket 93-129. Supplemental filings were made on March 15, 1994.

⁴ For this paper the Direct Case filings of the following LECs were analyzed: Ameritech, Bell South, Bell Atlantic, NYNEX, Pacific Bell, Southwestern Bell, and US West.

⁵ Indeed, any application markets like transactions processing that will be adversely affected by per call charge could be subject to migration pricing strategies if the basic query charges were set too high. The LECs control the access links used for the vast majority of all credit card verification and other point-of-sale telecommunications (continued...)

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ETI was asked to review these LEC 800 data base tariff Direct Case materials and to prepare an analysis. As we discuss in more detail below, despite the Commission's request for more specific and detailed data the Direct Case materials offered by many of the different exchange carriers still lack the appropriate level of detail. As was the case more than a year ago, the carriers' presentations still contain many generalities, references to underlying studies that are not provided, or other defects which make full analysis virtually impossible. Our analysis of the Direct Case material supports the following conclusions:

1. The LECs *have not met their burden of proof* that their exogenous costs are appropriate.
2. A number of LECs have continued to allocate costs to the exogenous category that are not authorized by the Commission *Order*.
3. The level of detail that some of these LECs have given to support their burden of demonstrating that additional exogenous costs should be recovered from their customers is limited to statements like that of Bell Atlantic that "inclusion in the calculation of exogenous costs is appropriate."⁶

⁵ (...continued)

applications and will continue to exercise such control even when new services and technology are available. By virtue of their control of these services, the LECs will have the ability to artificially suppress demand for one service and/or increase the demand for the other — by pricing practices, service quality differences and other means.

⁶ *Supplement to Direct Case of Bell Atlantic: Alternative Cost Support*, p. 2. It must be remembered that normal operation of the Commission's extremely generous Price Caps plan, designed to stimulate LEC investments, provides these LECs with substantial and growing compensation. In order for 800 users to have to pay more for allegedly "exogenous" costs not recognized by the Commission, the burden must be on the LECs to demonstrate that ratepayers are not paying twice for the same investment. That burden has generally not been met.

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4. In addition to those carriers who allocated unauthorized costs to the exogenous category, several LECs argue for application of fully-allocated overhead cost factors to exogenous cost estimates contrary to the express terms of the Commission's *Order*. The justification provided for the inclusion of these overheads costs is not compelling.
5. Some carriers have continued to use a levelized future demand to account for the exogenous costs and the effects of the Commission's required treatment of basic queries as a restructured service. Use of a levelized future demand will compensate the LECs twice, once within the calculations contained in the current submissions and again when normal growth in demand raises the Price Cap Index over time. No LEC has adequately justified *why* the use of a levelized future demand will not result in overcompensation under the Price Caps plan.

The discussion that follows is limited to a subset of the Issues designated by the Commission for investigation in this proceeding. In particular, we will address the following questions:

Issue 3: The reasonableness of the price cap LECs' 800 data base rates.

Subissue A: Are the exogenous costs claimed by the price caps LECs reasonable?

Subissue B: Have the LECs used reasonable rate making methodologies in developing their basic query rates?

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II. The LECs have filed incomplete and confusing Direct Case materials and have clearly not met their burden of proof.

The vast majority of the additional information that it was necessary for the Commission to solicit through this tariff investigation should have been provided as part of the LECs' initial tariff filing support packages. The carriers clearly failed to meet their burdens of proof at the time of the initial filing. However, rather than disallowing exogenous costs that the LECs had not properly justified, the Commission instituted an investigation and allowed the carriers a second chance to justify their initial calculations. Once again the LECs have generally failed to step up to the task at hand. The Direct Case submissions still contain cost information that can only charitably be described as sketchy. In almost all cases, it is still virtually impossible to get "behind" the exogenous cost calculations of each of the carriers and know exactly what is included, and how the bottom line results were achieved.

The following section highlights the major problems discovered in the September 20, 1993 Direct Cases and March 15, 1994 "Supplements".

a. Ameritech

Ameritech's Direct Case submission fails to support the Company's 800 Data Base tariff.

- Ameritech failed to comply with the requirements of the *Designation Order*. A revised version of the *Designation Order*'s "Appendix B" should have been filed along with the revised exogenous cost estimates included with the March 15, 1994 "Supplemental Filing".

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- Ameritech has allocated 800 data base costs between the interstate and intrastate jurisdictions on a relative use basis, rather than using Part 36 of the Commission's rules.⁷ As discussed in Section III.(a). below, this methodology results in an *overstatement* of interstate exogenous costs.
- Ameritech bases its cost justification upon a number of undocumented assumptions. For example, it indicates that the average record length associated with a vertical query is 40 times greater than a basic query, but that it was "convinced that a vertical query didn't consume 40 times the resources of a basic query." It therefore used its "best guess about the incremental resources consumed by a vertical query, and ten percent (10%) seemed reasonable."⁸ Ameritech provides no data to support this best guess or justify why the Commission should accept a "guess" that assigns unit costs based upon 0.025% of the physical differences between the query record lengths.⁹
- Ameritech allocates the total investments in shared use facilities (SCPs, Regional STPS and connecting A-links) based upon the relative percentage of 800 data base queries to total queries. Even assuming that a straightforward allocation based upon existing demand patterns were correct, Ameritech's allocation methodology would only be appropriate if the costs associated with the use of the facilities were identical for both 800 data base and LIDB queries. Ameritech has not presented any information that

⁷ See *Ameritech Direct Case*, p. 12.

⁸ See *Ameritech Submission of Revised Cost Support*, p. 2.

⁹ Contrary to Ameritech's "guess" that a vertical feature would not impose much in the way of additional costs, Southwestern Bell states that "a vertical query may need a great deal more memory and disk space than a basic query." (See, *SWB Direct Case*, p. 12).

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indicates that this is the case, or that it has even investigated the matter.

- Ameritech inappropriately included certain non-capital expense as exogenous. Specifically, Ameritech has included the costs of reprogramming switches from six-digit to three-digit screening and SSP functionality in end offices. The justification is a simple statement that "800 Database service could not operate with these switch translations" and "800 Database service could not operate without SSP functionality in end offices to initiate database queries."¹⁰ Such statements, unsupported by any evidence, do not meet the burden of proof for exogenous cost treatment. See the discussion in Section III.(a). below related to the inclusion of miscellaneous non-capital related expenses in exogenous cost calculations.
- Ameritech has inappropriately included expenses associated with computer software support and maintenance for SCP computers in its exogenous cost calculations. Stating simply that "if Ameritech were not required to offer 800 Database Service, Ameritech would not incur these costs."¹¹
- Ameritech has inappropriately included costs associated with 800 data base port terminations on Regional STPs as exogenous.¹² These are costs that should properly be considered as core SS7 costs. See discussion in Section III.(a). below.

¹⁰ *Id.*, pp. 8 - 9.

¹¹ *Id.*

¹² *Id.*, Attachment 1, p. 5.

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- Ameritech has attributed excess SCP costs to 800 data base exogenous costs by including the cost of *shared* SCPs and not accounting for any future modifications to the uses of the existing SCPs for other services. See Section III.(a). below for a more detailed discussion of *shared* SCP costs.

b. Bell Atlantic

Like the other LECs whose cases we review here, Bell Atlantic's Direct Case submission fails to support the Company's 800 Data Base tariff.

- Bell Atlantic provided insufficient data to allow full understanding or evaluation of the data included in its filing.
- Bell Atlantic appears to have allocated 800 data base exogenous costs between the interstate and intrastate jurisdictions on a relative use basis, rather than using Part 36 of the Commission's rules, although it is not entirely clear that even this allocation was ever flowed through to the bottom line exogenous cost results. As discussed in Section III.(a). below, an allocation based upon relative use results in an *overstatement* of interstate exogenous costs.
- Bell Atlantic uses a five year levelized demand to calculate exogenous costs which will have the effect of *double-counting* future demand growth.¹³ Although it has attempted to justify its use of this demand set as a reasonable approximation of real demand

¹³ See ETI Report.